



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

August 25, 2003

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 United States Code, Section 2688, the Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

A summary of the economic analysis supporting privatization of the Fort Lee electrical distribution utility system is enclosed. Privatization is expected to result in an estimated annual cost avoidance of \$.275 million compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the electrical distribution utility system and award a fifty-year contract for utility services at Fort Lee, to Dominion Virginia Power 21 days after the receipt of this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "William A. Armbruster", is positioned above the typed name.

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Ike Skelton
Ranking Member



**Department of the Army
Fort Lee, Virginia
Privatization of the Electrical
Distribution Utility System

Economic Analysis Summary

August 2003**

Executive Summary: The economic analysis conducted for the electrical distribution utility system at Fort Lee demonstrates that privatization will reduce the Government's cost over the 50-year contract term. The economic analysis for the electrical distribution system resulted in an estimated annual cost avoidance of \$274,986 when compared with respective costs of continued Government ownership and operation.

Overview of the Utility System:

Fort Lee currently purchases its electric power requirements from Dominion Virginia Power. Fort Lee takes delivery of electric power at 13.2-kV from Dominion Virginia Power from two primary voltage delivery points that are located near the northeast corner of the Installation. The system is presently operated and maintained by civilian personnel employed by the Army. The system consists of a 13.2-kV distribution switch station; approximately 25 circuit-miles of overhead primary distribution lines, approximately 35 circuit-miles of underground primary distribution lines, and 656 pad and pole mounted transformers with an aggregate capacity of 65,719 kVA.

Description of the Government's "Should Cost" estimate (SCE): The Government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the electrical distribution utility system. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on the electrical distribution utility system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility system in return for conveying the system to the contractor. The Government determined fair market value to be the \$6,156,544.

Procurement History:

1. The solicitation was issued in March 2001 with a closing date of 31 May 2001.
2. Dominion Virginia Power (Dominion) submitted a proposal in October 2001.
3. Negotiations commenced in February 2002.
4. Dominion submitted a revised proposal in July 2002.
5. Dominion submitted a final proposal in June 2003.
6. DESC requested an alternate proposal using Virginia State Corporation Commission (SCC) regulated rates. Dominion provided a final revision of the alternative proposal in April 2003.

Life Cycle Cost Analysis (LCCA): The privatization alternatives were evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of each alternative was developed utilizing ECONPAC. The results of the LCCA for

Government Ownership and the Contractor Ownership Best Value Alternative are summarized in the following tables:

Alternatives	Period (Years)	Net Present Value (\$)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				\$	%
Government Owned	50	\$ 31.678M	\$ 1.831 M		
Contractor Ownership	50	\$ 26.921 M	\$ 1.556M	\$.275 M	15%

Conclusions and Recommendations: Privatization of the Fort Lee Electrical Distribution Utility System is economical. Additionally, the following findings are provided:

1. The privatization of the Fort Lee Electrical Distribution Utility System will eliminate the need for the installation to perform these functions and will allow a firm whose competence is electrical distribution utility system operation and maintenance to operate and maintain the system.
2. The privatization of the Fort Lee Electrical Distribution Utility System assures future upgrades and additions to these systems.
3. This privatization action will be a cost-effective means to provide safe and reliable electrical distribution utility services to the Installation.